

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
CLERK**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Clerk of McCreary County, Kentucky, for the year ended December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the McCreary County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
CLERK**

**For The Year Ended
December 31, 2003**

**ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCREARY COUNTY CLERK

**For The Year Ended
December 31, 2003**

Ross & Company, PLLC has completed the McCreary County Clerk's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$33,135 from the prior year, resulting in excess fees of \$43,286 as of December 31, 2003. Revenues increased by \$117,967 from the prior year and expenditures increased by \$84,832.

Debt Obligations:

Capital lease principal agreements totaled \$3,179 as of December 31, 2003. Future principal and interest payments of \$4,784 are needed to meet these obligations.

Report Comments:

- The Clerk Should Pay Deed Transfer Tax Quarterly
- The Clerk Should Cause Fiscal Court To Set A Maximum Amount For Deputies' Salaries
- The Clerk's Settlement Should Be Approved By The Fiscal Court In Compliance With KRS 64.152
- The Clerk Did Not Publish Her Financial Statement Within Sixty Days Of The Year End
- The Clerk Did Not Make Daily Deposits

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCreary County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2004, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Clerk Should Pay Deed Transfer Tax Quarterly
- The Clerk Should Cause Fiscal Court To Set A Maximum Amount For Deputies' Salaries
- The Clerk's Settlement Should Be Approved By The Fiscal Court In Compliance With KRS 64.152
- The Clerk Did Not Publish Her Financial Statement Within Sixty Days Of The Year End
- The Clerk Did Not Make Daily Deposits

This report is intended solely for the information and use of the County Clerk and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
October 19, 2004

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Fees For Services	\$	7,372
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Fiscal Court		6,818
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	360,768
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Usage Tax		489,332
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Tangible Personal Property Tax		670,064
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Lien Fees		3,710
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Licenses-

Fish and Game		5,323
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Marriage		6,728
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Occupational		387
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Deed Transfer Tax		15,630
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Delinquent Tax	106,796	1,658,738
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	11,076
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Real Estate Mortgages		17,275
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Chattel Mortgages and Financing Statements		64,575
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Powers of Attorney		870
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All Other Recordings		21,910
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Charges for Other Services-

Copywork	7,735	123,441
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Other:

Miscellaneous		28,201
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Interest Earned		980
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Total Revenues	\$	1,825,550
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The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 JO KIDD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	271,666	
Usage Tax		475,117	
Tangible Personal Property Tax		262,825	

Licenses, Taxes, and Fees-

Fish and Game		5,046	
Delinquent Tax		25,999	
Legal Process Tax		16,713	
		<u>16,713</u>	\$ 1,057,366

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	107,859	
Delinquent Tax		20,141	
Deed Transfer Tax		14,848	
Occupational Licenses		<u>88</u>	142,936

Payments to Other Districts:

Tangible Personal Property Tax	\$	272,017	
Delinquent Tax		<u>41,327</u>	313,344

Payments to Sheriff

341

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	117,510	
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Employee Benefits-

Employer's Share Social Security		13,521	
Employer's Share Retirement		19,304	
Employer's Paid Health Insurance		16,984	

Contracted Services-

Maintenance and Repairs		4,703	
Advertising		181	
Printing and Binding		1,013	

Materials and Supplies-

Office Supplies		8,841	
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The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 JO KIDD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Dues	\$	425
Postage		4,149
Refunds		261
Telephone		2,770
Miscellaneous		8,528

Debt Service:

Lease Purchases	2,734	\$	200,924
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Total Expenditures		\$	1,714,911
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Net Revenues		\$	110,639
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Less: Statutory Maximum			63,753
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Excess Fees		\$	46,886
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Less: Expense Allowance			3,600
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Excess Fees Due County for 2003		\$	43,286
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Payments to Fiscal Court - March 5, 2004	\$	10,076	
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March 31, 2004		25,000	
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October 19, 2004		8,210	43,286
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Balance Due Fiscal Court at Completion of Audit		\$	0
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The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Lease

The office of the County Clerk was committed to a lease agreement with Xerox for a copy machine. The agreement requires a monthly payment of \$228 for 48 months to be completed on January 1, 2006. The total balance of the agreement was \$4,784 as of December 31, 2003.

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COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Clerk Should Pay Deed Transfer Tax Quarterly

The Clerk paid deed transfer tax to the Fiscal Court on June 3, 2003; November 20, 2003; and March 5, 2004. We recommend the Clerk pay deed transfer tax for each quarter in the month after the close of the each quarter. The Clerk also overpaid Deed Transfer Tax, and the difference will be applied as a payment of excess fees.

County Clerk's Response:

I was out through March because of a death in the family.

The Clerk Should Cause Fiscal Court To Set A Maximum Amount For Deputies' Salaries

The Fiscal Court set the maximum amount for deputies' salaries for 2003 on October 20, 2004. We recommend that the Clerk ask Fiscal Court to pass an order setting a maximum amount for deputies' salaries each year in compliance with KRS 64.530(3).

County Clerk's Response:

I was out through March because of a death in the family.

The Clerk's Settlement Should Be Approved By The Fiscal Court In Compliance With KRS 64.152

The Clerk's settlement was approved by the Fiscal Court on October 20, 2004. We recommend that the Clerk present her settlement to the Fiscal Court in compliance with KRS 64.152.

County Clerk's Response:

I was absent during the month of March because of a death in the family.

The Clerk Did Not Publish Her Financial Statement Within Sixty Days Of The Year End

The Clerk published her settlement on April 1, 2004, which was 31 days late. According to KRS 424.220(6), the clerk shall, within 60 days after the close of the calendar year, cause the financial statement to be published. We recommend that the Clerk publish her settlement within 60 days as required.

County Clerk's Response:

I thought it was March 31.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Clerk Did Not Make Daily Deposits

We noted one instance where a deposit slip dated April 29, 2003 did not clear until May 6, 2003, and another instance where a deposit slip dated March 4, 2003 cleared on March 11, 2003. We recommend that the Clerk make daily deposits into the Clerk's official fee account.

County Clerk's Response:

This was corrected after the audit was done for 2002. I trained a deputy to do them when I wasn't present.

PRIOR YEAR:

The Clerk Did Not Make Daily Deposits

This was not corrected and is included in the current year audit.

The Clerk Did Not Publish Her Financial Statement Within Sixty Days Of The Year End

This was not corrected and is included in the current year audit.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCreary County Clerk for the year ended December 31, 2003, and have issued our report thereon dated October 19, 2004. This was a special report on the County Clerk's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the McCreary County Clerk's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Clerk Should Pay Deed Transfer Tax Quarterly
- The Clerk Should Cause Fiscal Court To Set A Maximum Amount For Deputies' Salaries
- The Clerk's Settlement Should Be Approved By The Fiscal Court In Compliance With KRS 64.152
- The Clerk Did Not Publish Her Financial Statement Within Sixty Days Of The Year End
- The Clerk Did Not Make Daily Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Clerk internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
October 19, 2004

